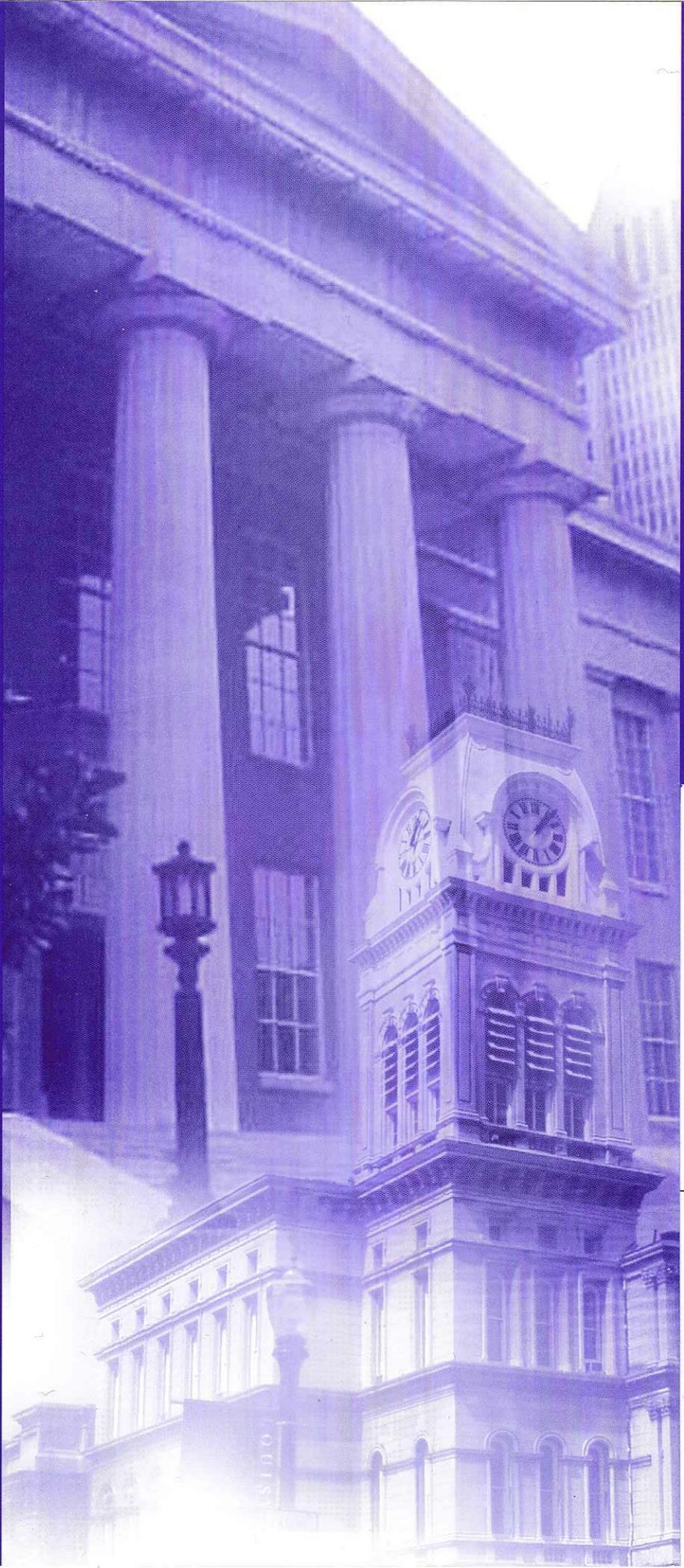




Jerry E. Abramson
Mayor

26 Member
Metro Council

The Office of Internal Audit provides independent, objective assurance and consulting services that adds value to and improves Louisville Metro Government.



Office of Internal Audit

Parks and Recreation

Golf Course Receipts

Audit Report

Office of Internal Audit

Parks and Recreation

Golf Course Receipts

April 2008



Parks and Recreation

Golf Course Receipts

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OFFICE OF INTERNAL AUDIT
LOUISVILLE, KENTUCKY

JERRY E. ABRAMSON
MAYOR

MICHAEL S. NORMAN, CIA, CFE, CGAP
CHIEF AUDIT EXECUTIVE

JIM KING
PRESIDENT METRO COUNCIL

Transmittal Letter

April 7, 2008

The Honorable Jerry E. Abramson
Mayor of Louisville Metro
Louisville Metro Hall
Louisville, KY 40202

Subject: Audit of Parks and Recreation Golf Course Receipts

Introduction

An audit of Parks and Recreation golf course receipts was performed. The primary focus of the audit was the operational and fiscal administration of the revenue. This included how Parks processes, records, and monitors the activity.

The examination was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

As a part of the review, the internal control structure was evaluated. The objective of internal control is to provide reasonable, but not absolute, assurance regarding the achievement of objectives in the following categories:

- Achievement of business objectives and goals
- Effectiveness and efficiency of operations
- Reliability of financial reporting
- Compliance with applicable laws and regulations
- Safeguarding of assets

There are inherent limitations in any system of internal control. Errors may result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personnel factors. Some controls may be circumvented by collusion. Similarly, management may circumvent control procedures by administrative oversight.

Scope

The operating procedures for the Parks and Recreation golf course receipt activity were reviewed through interviews with key personnel. The focus of the review was the operational and fiscal administration of the revenue activity. Tests of sample data were performed on 2007 golf professional revenue and golf annuals activity. Activity reviewed included reports and support documentation, rental agreements, cash register closing reports, bank transactions, and Metro financial system postings.

The review included assessing whether activity was processed, recorded, and monitored accurately and appropriately. The details of the scope and methodology of the review will be addressed in the Observations and Recommendations section of this report. The examination would not identify all issues because it was based on selective review of procedures and data.

Opinion

It is our opinion that the internal control structure for the Parks and Recreation golf course receipt activity is satisfactory. The internal control rating is on page 5 of this report. This rating quantifies the opinion regarding the internal controls. Parks has made several changes (e.g., cash registers at all courses, new golf professional agreements) since the last audit and should be commended for their actions. While the overall rating is satisfactory, some opportunities to strengthen the internal control structure were noted. Examples include the following.

- **Golf Professional Activity.** Some opportunities for improving the general administration of golf professional activity were noted. There were minor issues noted with regards to golf cart rental transportation agreements, timeliness of deposits, cart rental rates, and activity reporting.
- **Golf Annual Activity.** Some opportunities were noted with regards to the administration of golf annual activity. Areas for improvement included segregation of duties, activity processing, and updating policies and procedures.

The implementation of the recommendations in this report will help improve the internal control structure and effectiveness of the administration of golf course receipt activity.

Corrective Action Plan

Representatives from Parks and Recreation have reviewed the results and are committed to addressing the issues noted. Parks and Recreation's corrective action plans are included in this report. We will continue to work with Parks and Recreation to ensure the actions taken are effective to address the issues noted.

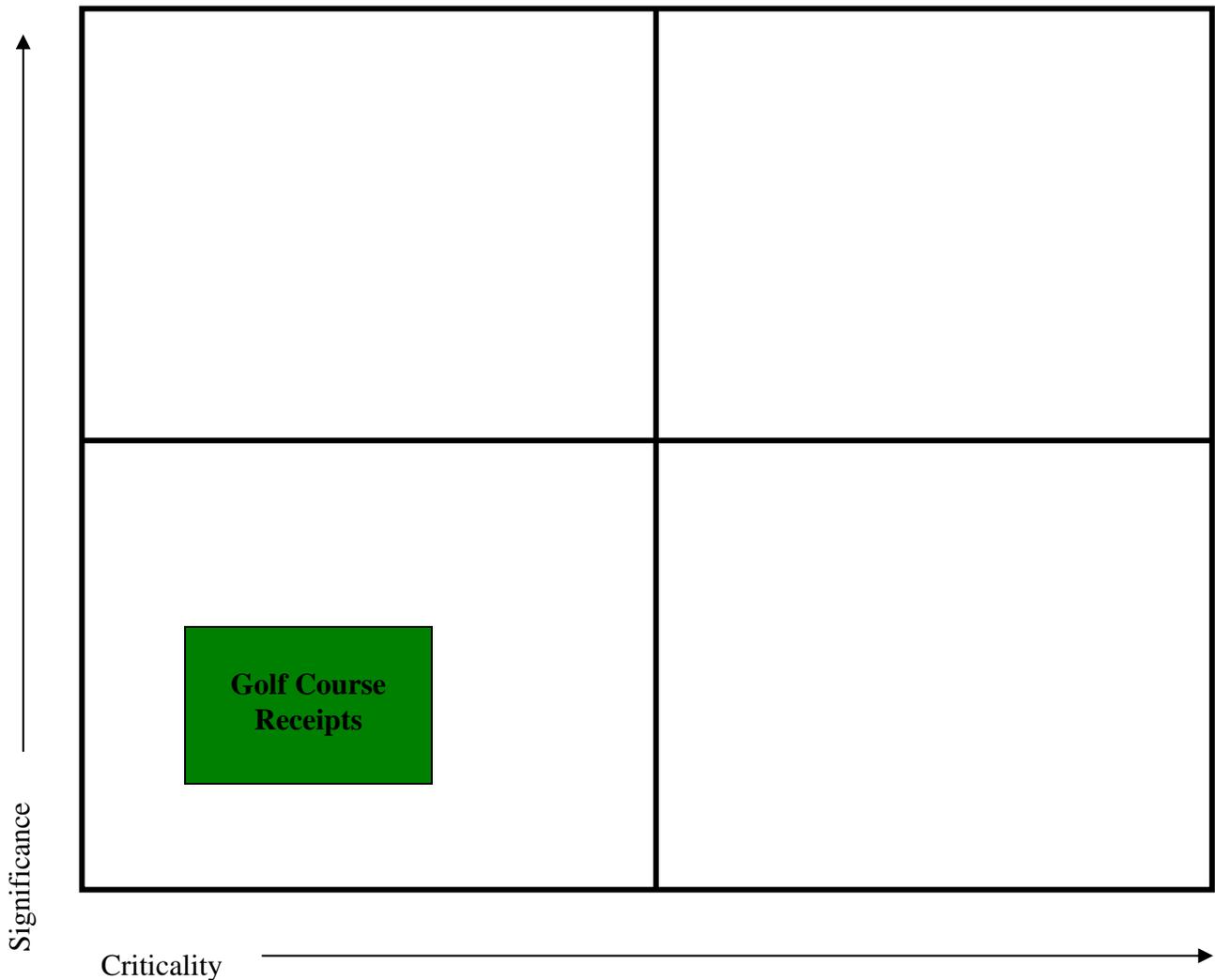
Sincerely,



Michael S. Norman, CIA, CFE, CGAP
Chief Audit Executive

cc: Louisville Metro Council Government Accountability and Audit Committee
Louisville Metro Council Members
Director of Parks and Recreation
Louisville Metro External Auditors

Internal Control Rating



<u>Legend</u>			
<u>Criteria</u>	Satisfactory	Weak	Inadequate
<u>Issues</u>	Not likely to impact operations.	Impact on operations likely contained.	Impact on operations likely widespread or compounding.
<u>Controls</u>	Effective.	Opportunity exists to improve effectiveness.	Do not exist or are not reliable.
<u>Policy Compliance</u>	Non-compliance issues are minor.	Non-compliance issues may be systemic.	Non-compliance issues are pervasive, significant, or have severe consequences.
<u>Image</u>	No, or low, level of risk.	Potential for damage.	Severe risk of damage.
<u>Corrective Action</u>	May be necessary.	Prompt.	Immediate.

Background

Parks and Recreation is responsible for the operation of nine municipal golf courses, six 18-hole and three 9-hole courses. Parks is responsible for maintenance of the grounds, and the contract Golf Professionals are responsible for the daily management of golf play and pro shop sales. This includes golf course greens fees collected solely for Parks, along with various types of pro shop revenues that are shared with Parks by the Golf Professionals. The contracts specify the revenue sharing percentages due Parks for each type of pro shop activity.

Annual golf passes cover greens fees on an annual basis. Golfers pay a small user fee each time the pass is used. Also available on an annual basis are cart discount passes, which allow golf cart rentals for a reduced fee. The fiscal year 2007 operating receipts for Metro Parks' golf courses were approximately \$3.1 million. An analysis of the golf course revenue is included in the Appendix.

This was a scheduled audit. Since golf courses function on a cash basis, there are inherent risks associated with this type of business operation (e.g., completeness of activity reported). There are no inventories or records of goods sold to reconcile revenue activity. Routine audits of this activity are warranted to ensure compensating controls are in place to mitigate the risks.

Summary of Audit Results

I. Current Audit Results

See Observations and Recommendations section of this report.

II. Prior Audit Issues

The Office of Internal Audit performed a review of Parks and Recreation golf course activity and issued a report in December 2003. Parks has made several changes since the last audit and should be commended for their actions. Unless otherwise noted, all prior issues have been satisfactorily addressed.

III. Statement of Auditing Standards

The audit was performed in accordance with Government Auditing Standards issued by the Comptroller General of the United States and with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

IV. Statement of Internal Control

An understanding of the internal control structure was obtained in order to support the final opinion.

V. Statement of Irregularities, Illegal Acts, and Other Noncompliance

The examination did not disclose any instances of irregularities, any indications of illegal acts, and nothing was detected during the examination that would indicate evidence of such. Any significant instances of noncompliance with laws and regulations are reported in the Observations and Recommendations section of this report.

VI. Views of Responsible Officials / Action Plan

A draft report was issued to Parks and Recreation on March 12, 2008. An exit conference was held at the Parks and Recreation administrative office on March 26, 2008. Attending were Mike Heitz, Marty Storch, Mary Ann Westenhofer, and John Thomas Conroy representing Parks and Recreation; and Mike Norman and Jenni Schelling representing Internal Audit. Final audit results were discussed.

The views of Parks and Recreation officials were received on April 7, 2008 and are included as corrective action plans in the Observations and Recommendations section of the report. The plans indicate a commitment to addressing the issues noted.

LMCO §30.36(B) requires Louisville Metro Agencies to respond to draft audit reports in a timely manner. It specifically states that

“The response must be forwarded to the Office of Internal Audit within 15 days of the exit conference, or no longer than 30 days of receipt of the draft report.”

Parks and Recreation’s response was provided within this required timeframe.

Observations and Recommendations

Scope

Parks and Recreation's procedures for administering golf course receipt activity were reviewed. The focus of the review was the operational and fiscal administration of the activity. This included how activity is processed, recorded, and monitored. Applicable personnel were interviewed in order to gain a thorough understanding of the processes and to ensure that the risks were adequately mitigated through the internal controls.

Tests of sample data were performed on golf professional revenue activity for transactions in July 2007; and tests of sample data were performed for golf annuals effective during calendar year 2007. Documentation reviewed included reports and support documentation, rental agreements, cash register closing reports, bank transactions, and Metro financial system postings. In addition, summary reports of golf receipt activity were reviewed and analyzed to identify activity for further review (see Appendix).

Observations

The overall internal control structure of Metro Park's golf course revenue activity is satisfactory. However, some opportunities were noted to strengthen the controls. The opportunities are as follows.

#1 – Golf Professional Activity

#2 – Golf Annual Activity

Details of these begin on the following page.

#1 – Golf Professional Activity

There were some opportunities noted for improving the general administration of the golf professional activity. Specifics include the following.

- **Rental Transportation Agreements.** As golf carts are rented, a Rental Transportation Agreement is completed. The agreement serves as documentation of the rental and as a liability agreement for any damages arising from the use of the golf cart. There were some cases noted in which the agreements were not completed for each golfer or group and several cases where the rental agreements were not signed by the lessee.
- **Deposit Timeliness.** There were some instances in which courses did not deposit revenue receipts with the bank timely (within one business day) as required by the license agreements. *Similar issues were noted in prior reviews.*
- **Golf Cart Rental Rates.** Although current golf cart rental rates are posted at each golf course, the rates posted on Parks' website (e.g., Louisville Golfer's Guide) and the golf course policy and procedure manual are not up to date with current rates charged. These inconsistencies can hinder the monitoring and reconciliation of revenue activity. *Similar issues were noted in prior reviews.*
- **Daily Closing Report.** One golf course uses a computer system to process sales transactions and manage golf activity. The daily closing report generated from the system does not provide sequential control numbers. Therefore, the sequence of closing reports cannot be properly monitored to ensure that all activity is reported.
- **Pro Shop Report.** A Golf Pro Shop Daily Balance Form is used by the golf professionals to report total pro shop revenue activity and amounts due to Parks. The form does not facilitate accurate reporting of the various rates charged for pro shop activity; therefore, it is not completed in a consistent manner by the professionals (i.e., details such as number of rentals and rates may not be recorded on the form, only totals). This could be hindering Parks ability to efficiently monitor and reconcile activity. *Similar issues were noted in prior reviews.*
- **Activity Reports.** Parks uses numerous spreadsheets for the internal monitoring of golf activity. Some of the data is duplicated on one or more spreadsheets or reports. A few cases were noted in which supplementary information used to record and monitor golf activity did not agree with the summary reports. While none of the discrepancies appeared to be significant, they weaken the reliability of the reports. *Similar issues were noted in prior reviews.*

Recommendations

Appropriate Parks personnel should take corrective action to address the issues noted. Specific recommendations include the following.

- ✓ Due to the inherent risks associated with business operations that function on a cash basis, it is imperative that Parks staff continue their efforts of reviewing golf activity information on a regular basis. This includes verification of receipts to the revenue records and, ultimately, to the financial statements. Monitoring should include comparisons of course-to-course, as well as each course's historical activity.
- ✓ The golf cart Rental Transportation Agreements should be monitored thoroughly. This includes the verification of Rental Transportation Agreement receipts submitted to ensure completeness and accuracy of information reported.
- ✓ All funds should be processed and deposited in a timely manner. License agreements and Parks policies and procedures require deposits to be made within one business day of the activity. This helps ensure the security of funds and optimize investment income.
- ✓ Parks' website and policies and procedures should be routinely updated to reflect current rates charged at each golf course. This will help eliminate any confusion regarding rates and assist with monitoring and reconciliation efforts.
- ✓ Parks should consider contacting the provider of the golf management system used at one course to inquire about adding sequential control numbers to closing reports. The sequence of these numbers should be verified to help ensure that all daily closings and associated activity are properly reported.
- ✓ Parks should consider modifying the Golf Pro Daily Balance Form so that it facilitates accurate reporting of all pro shop activity. If it is necessary that details of activity (e.g., number of rentals and rates) be noted to assist with monitoring and reconciliation efforts, then the form should be modified to sufficiently indicate such reporting. If detailed information is not needed, the fields should be removed from the form. Alternatively, the golf course policies and procedures include a "Cart Rental Report" that is not currently utilized. This report may help accommodate reporting the various rates charged for golf carts rentals.
- ✓ Parks should continue to consider implementing computerized golf management systems at all nine courses. This would help facilitate the reconciliation and monitoring process by reducing the manual reporting of revenue activity by golf professionals, and ultimately increase the accuracy and timeliness of information reported.
- ✓ Computerized links should be implemented throughout Parks' internal golf monitoring reports. This will decrease the amount of data manually keyed into the reports and the risk of data entry errors. In addition, the value and usefulness of the supplemental monitoring reports should be determined. It may be possible to eliminate some of the spreadsheets without impacting the monitoring of golf course activity.
- ✓ Parks personnel should continue monitoring daily activity reports to ensure golf revenues are being properly administered and reported. This should include reviewing register closing reports and summary reports for accuracy and completeness of receipts, along with the calculation of the amounts due Parks. Any exceptions noted during routine monitoring should be thoroughly investigated and the resolution properly documented, to include supervisory approval when necessary.

#2 – Golf Annual Activity

There were some opportunities noted for improving the administration of the golf annual activity. Specifics include the following.

- **Segregation of Duties.** There is a lack of segregation of duties for the golf annual nightly closing process. One person is responsible for performing sales transactions, collecting funds, and verifying total funds to the cash register closing reports. When segregation of duties does not exist, the integrity and reliability of the operation is compromised.
- **Policies and Procedures.** Golf annual policies and procedures do not address the processing of free passes issued to contest winners or discounted passes for First Tee members. This increases the risk of noncompliance with intended policies and procedures and can lead to inconsistencies and inefficiencies with activity processing.
- **Activity Processing.** One case was identified where the applicant information was not recorded correctly in the golf annual database. Though the error had no effect on revenue, it could have allowed the pass user to take advantage of year-round play privileges instead of being restricted to three months.
- **Financial Accounts.** Golf annual activity was not accurately reflected on the Metro financial statements for fiscal year 2007. Golf annual funds are transferred each quarter from the golf office revenue account to golf annual accounts for each of the nine golf courses. However, the funds were not transferred for the 4th quarter of fiscal year 2007 (approximately \$56,000). Though activity processed was appropriate, certain financial accounts were distorted. This weakens the reliability and usefulness of Metro financial statements.

Recommendations

Appropriate Parks personnel should take corrective action to address the issues noted. Specific recommendations include the following.

- ✓ Proper segregation of duties is an integral part of an effective internal control structure. The same individual should not be responsible for performing sales transactions, collecting funds, and verifying total funds to the cash register closing reports. Due to staff size constraints, complete segregation may not be feasible. In order to compensate for these constraints, monitoring and oversight activities are critical.
- ✓ Parks should be commended for having a thorough policies and procedures manual. The manual should be reviewed and updated periodically to ensure it adequately addresses all routine transactions and known exceptions (i.e., golf annual passes issued to contestant winners or at a discount).
- ✓ A membership fee analysis should be performed on a regular basis to ensure that keying mistakes are identified, documented, and corrected if applicable. This should help ensure that golf annual activity is being maintained and reported correctly.

- ✓ Care should be taken to ensure golf activity is coded to the proper financial coding. The appropriate financial coding should be used to record program activity in order to accurately document the fiscal activity and to facilitate the planning of future budgetary needs.

Appendix – 2007 Individual Golf Course Contributions to Total Golf Activity

The following table contains analytical information regarding golf course play and revenue for each course in comparison to overall activity. It is intended for informational purposes only.

	Total Golf Activity	18-Hole Courses						9-Hole Courses		
		Seneca	Shawnee	Charlie Vettiner	Iroquois	Sun Valley	Long Run	Crescent Hill	Cherokee	Bobby Nichols
Total Rounds Played	294,070	17.4%	14.2%	13.5%	12.9%	9.9%	9.0%	9.4%	8.0%	5.5%
Total Greens Fee Revenue	\$2,580,132	18.3%	15.2%	14.4%	13.5%	9.5%	9.5%	9.8%	6.0%	3.8%
Total Pro Shop Revenue	\$3,286,232	18.8%	17.1%	14.9%	16.0%	9.3%	8.4%	6.1%	6.1%	3.4%
Golf Cart Rentals	\$1,900,234	16.7%	16.2%	14.5%	17.4%	9.8%	9.1%	6.3%	6.7%	3.3%
Merchandise	\$ 376,693	26.6%	16.4%	18.4%	11.1%	11.7%	3.7%	6.1%	5.4%	0.5%
Concessions	\$ 930,363	18.9%	17.3%	15.2%	16.3%	8.2%	8.0%	5.4%	5.6%	5.1%
Pull Carts	\$ 13,940	18.1%	21.8%	6.3%	7.8%	0.0%	20.4%	18.5%	7.0%	0.1%
Club Rentals	\$ 3,486	34.2%	12.9%	19.6%	1.6%	0.6%	0.7%	22.3%	8.0%	0.0%
Range	\$ 61,517	30.7%	43.8%	1.8%	0.0%	0.0%	20.6%	3.1%	0.0%	0.0%
Total Golf Course Revenue	\$5,866,364	18.6%	16.3%	14.7%	14.9%	9.4%	8.9%	7.7%	6.1%	3.6%
Total Revenue Paid to Parks	\$2,841,333	18.4%	15.5%	14.5%	13.8%	9.5%	9.5%	9.3%	5.9%	3.6%

Parks and Recreation's Corrective Action Plan

Parks and Recreation's corrective action plan begins on the following page.

MEMORANDUM

Michael J. Heitz, AIA
Director

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To: Michael S. Norman, CIA, CFE, CGAP
Chief Audit Executive

From: Michael J. Heitz, AIA
Director

Subject: Golf Audit

Date: April 1, 2008



Thank you for the opportunity to respond to the 2008 Golf audit. I am pleased to work as a team with Internal Audit to improve accountability and professionalism both in golf and our entire department. Since the last audit, Golf has awarded new golf pro contracts, promoted Marty Storch to an Assistant Director, hired a new golf administrator, who is considered an expert in the turf maintenance field, in addition to exploring new methods of improving transparency and accountability in our operations.

We are negotiating with the ACTIVE Network to provide software that will provide better administrative oversight for our management team while providing a positive recreation experience for our patrons. We believe this software will improve our administrative oversight, provide faster and more accurate reports, in addition to enhancing our service to our patrons. We are already using this software for our golf annuals. In response to the observations identified in the exit interview, we have the following responses.

#1, Golf Professional Activity--We agree with the need to continue to improve our reports and oversight of pro activity. We believe the new software will allow us to provide better administrative reports as we reduce the manual keying and reporting of our revenue activity. We will build all recommendations into our new reporting system, as we evaluate our reporting needs.

#2, Golf Annual Activity--We will update our policies and procedures to reflect the recommended changes. We have already built changes into our annual software to reflect the card appearance changes recommended. We will also review all financial documentation for appropriate account coding, maintaining the reliability of our financial statements.

We believe the problems noted with the reports will be eliminated with our new software. We anticipate converting one course to serve as our pilot this fall. We are analyzing the connectivity needs of each site now. We anticipate that we will start installing the software and hardware, Spring 2009, with full installation as budget and staffing allow. We anticipate that all sites will be on-line within two years or Spring, 2011. We look forward to working with Internal Audit as all these changes are brought on line.



Jerry E. Abramson
Mayor
Louisville
Metro Council

c.: Marty Storch
Mary Ann Westenhofer